

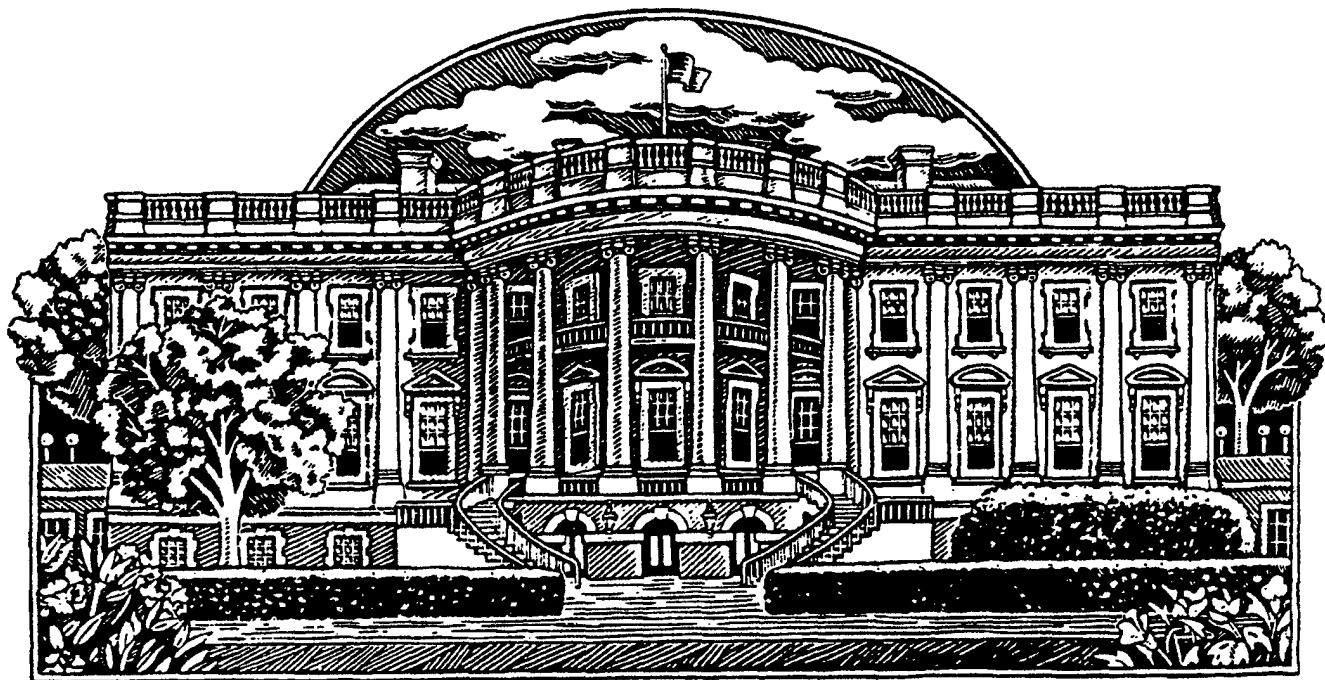


PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

AUDIT COMMITTEE

SUMMARY REPORT ON AUDITS OF THE CONTRACT AND GRANT CLOSEOUT PROCESS

REPORT NUMBER 93-058
FEBRUARY 23, 1993



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The following acronyms are used in this report.

AID.....	Agency for International Development
DCAA.....	Defense Contract Audit Agency
DoC.....	Department of Commerce
DoD.....	Department of Defense
DoS.....	Department of State
DoED.	Department of Education
FAR.....	Federal Acquisition Regulation
FEMA.....	Federal Emergency Management Agency
GAO.....	General Accounting Office
PCIE.....	President's Council on Integrity and Efficiency



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

February 23, 1993


MEMORANDUM FOR THE CHAIRMAN AND MEMBERS OF THE
PRESIDENT'S COUNCIL ON INTEGRITY
AND EFFICIENCY

SUBJECT: Summary Report on Audits of the Contract
and Grant Closeout Process

We are providing this summary report on the contract and grant closeout process for your information and use. It summarizes the results of audits made by the five participating Inspectors General and the General Accounting Office. Comments on a draft of this report were considered in preparing the final report.

Implementation of the recommendations made by the Inspectors General and the General Accounting Office to each of the agencies should improve the effectiveness of contract and grant closeout operations.

If you have any questions on the report, please contact me or Mr. Salvatore D. Guli, Office of the Inspector General for Auditing, at (703) 692-3025.


Derek J. Vander Schaaf
Deputy Inspector General

Enclosure

**PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY SUMMARY REPORT ON
AUDITS OF THE CONTRACT AND GRANT CLOSEOUT PROCESS**

EXECUTIVE SUMMARY

Introduction. The Federal Acquisition Regulation (FAR) establishes guidance for Executive agency procurement and contract administration missions. Contract and grant closeout is a function of contract administration. This report presents the results of audits conducted by the Inspectors General in the Departments of Defense (DoD), Commerce (DoC), Education (DoED), and State (DoS); and the Federal Emergency Management Agency (FEMA). The results of the General Accounting Office (GAO) audit of the Agency for International Development (AID) are also included.

Audit Objectives. The overall objective of the audit was to determine whether the contract and grant closeout process was accomplished in an efficient and effective manner. To accomplish this, specific objectives were established to determine:

- o the timeliness of contract and grant closeout;
- o the validity of obligations, timeliness and adequacy of fund reviews, and deobligation of excess monies;
- o whether overpayments were identified and recovered;
- o the adequacy of contract and grant tracking systems;
- o the impact of delays in auditing overhead rates;
- o whether goods and services were delivered or performed in accordance with contract and grant terms;
- o whether Government-owned property was recovered at the completion of the contracts;
- o the independence of the Inspectors General reviewing the contract and grant closeout process; and
- o the adequacy of internal controls.

Audit Results. The audits generally concluded that the contract and grant closeout process needed improvement.

- o Contracting officials did not close contracts or grants within prescribed timeframes. Completed contracts were not closed for periods ranging from 1 month to 14 years after the FAR timeframes expired.

o Excess funds were not deobligated, funds were not reviewed in a timely manner, and unliquidated obligations remained on contracts and grants until closeout. Contract fund reviews were hindered by incomplete finance files.

o Contract overpayments were not identified in a timely manner. For grants, the Statute of Limitations prevented one agency from recovering misspent funds after 5 years.

o Identification of contracts awaiting closeout was hampered by inadequate information systems.

o The backlog of Defense Contract Audit Agency (DCAA) audits of overhead rates impacted contract closeout in some agencies. The DCAA backlog could be reduced because of a change in DCAA audit priorities caused by a change in Public Law.

o Contracting officials did not always ensure that goods and services were received or met the contract and grant terms.

o Government-owned property was not returned at the completion of contracts.

o Participating Inspectors General did not report a problem with auditor independence in contract or grant closeout reviews.

o Internal controls needed improvement because contracting officers were not properly trained in the contract closeout process and were not held accountable for the closeout process.

Summary of Recommendations. The audits resulted in 87 recommendations to management: DoD 21, DoC 7, DoED 8, DoS 26, AID 4, and FEMA 21. Recommendations addressed the need for higher priority and more timely contract and grant closeout, improved contract information tracking systems, improved property accountability, and timely identification and deobligation of excess funds. Management comments to the recommendations indicated agreement that the contract and grant closeout process needed to be improved. We believe implementation of the recommendations should improve the effectiveness of the contract and grant closeout process. A change in Public Law brought incentive to improve the contract closeout process by placing new limits on the availability of appropriations. Based on the positive actions agreed to by each Executive agency and the legislated changes in appropriation accounting, this report makes no additional recommendations.

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Prepared by:
Office of the Inspector General
Department of Defense

PART I - INTRODUCTION

Background

This President's Council on Integrity and Efficiency (PCIE) project, led by the Office of the Inspector General, DoD, addressed the contract and grant closeout process. This report summarizes results of the audits conducted by the Inspectors General in the Departments of Defense (DoD), Commerce (DoC), Education (DoED), and State (DoS); and the Federal Emergency Management Agency (FEMA). The General Accounting Office (GAO) conducted the audit of the Agency for International Development (AID). Appendix A lists the 15 reports that the Inspectors General and GAO issued from January 1990 to April 1992, and Appendix B lists the points of contact for the audits.

The Federal Acquisition Regulation (FAR) establishes guidance for all Executive agencies (except the DoED) in procurement and contract administration missions. Contract and grant closeout is a function of contract administration. The FAR subsection 4.804-5, "Detailed Procedures for Closing Out Contract Files," specifies that the office administering the contract is responsible for initiating closeout procedures. Each Executive agency participating in this project has established implementing regulations or operating procedures for the contract closeout process. For grants, the Education Departmental General Administrative Regulations provide the overall policy for the Department of Education; a variety of other implementing guidance provides the procedural details.

Objectives

The overall objective of the audit was to determine whether the contract and grant closeout process was accomplished in an efficient and effective manner. To accomplish the objective at the various Federal departments and agencies, specific objectives were established to determine:

- o the timeliness of contract and grant closeout;
- o the validity of obligations, the timeliness and adequacy of fund reviews, and deobligation of excess monies;
- o whether overpayments were identified and recovered;
- o the adequacy of contract and grant tracking systems;
- o the impact of delays in the Defense Contract Audit Agency (DCAA) auditing of overhead rates;

- o whether goods and services were delivered or performed in accordance with contract and grant terms;

- o whether Government-owned property was recovered at the completion of the contracts;

- o the independence of the Inspectors General reviewing the contract and grant closeout process; and

- o the adequacy of internal controls related to the contract and grant closeout process.

Each participating agency performed audit steps to answer the audit objectives applicable to its individual organization. None of the Inspectors General or the GAO reported a problem with auditor independence in contract and grant closeout reviews.

Scope

The audit scope included contracts and grants that were complete and awaiting closeout. The Executive agencies and GAO conducted the reviews at various periods during calendar years 1988 to 1991. In the DoD, the Defense Contract Management Command administered about 485,000 prime contracts valued at about \$750 billion during that period. The DoD contract universe at 3 contract administration regions reviewed was 214,539 active or completed contracts, with unliquidated obligation balances of about \$42.3 billion. The DoD used statistical sampling procedures to project audit results. The DoC had a universe of 599 completed contracts to be closed, with total obligations of \$317 million. The DoC applied statistical techniques to project audit results. The DoED was unable to identify the universe of grants awaiting closeout because the grant information system did not provide information on expired grants. However, the DoED estimated that between 8,000 and 9,000 discretionary grants were awarded each year and would require closeout processing. The DoED audit results were based on actual figures extracted from the primary accounting system. In DoS, the audit universe of contracts awaiting closeout was difficult to establish because of the lack of a contract information system. The DoS audit results were not based on statistical sampling procedures due to the incomplete universe data. The FEMA reviewed 6 activities and reported on 1,741 open contracts valued at about \$1.422 billion administered by the headquarters office and two regions. The FEMA identified 67 expired contracts, valued at about \$11 million, at 3 other regions. The FEMA did not project audit results from the samples of contracts reviewed. At AID, the GAO reported on 5,908 expired contracts valued at approximately \$738 million. The GAO report did not indicate the use of statistical sampling to present audit results for AID.

The economy and efficiency and program results audits were conducted in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspectors General of the participating Executive agencies and GAO. Accordingly, they included such tests of internal controls as were considered necessary.

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PART II - RESULTS OF AUDITS AND RECOMMENDATIONS

The audits performed in the six Executive agencies (DoD, DoC, DoED, DoS, FEMA, and AID), reported significant problems with untimely contract (or grant) closeout and with inaccurate and incomplete files and data systems. Five of the participants (excluding AID) reported problems with failure to conduct timely fund reviews and failure to deobligate excess funds. The following presents a summary of the reported conditions.

Timeliness of contract and grant closeout. Officials responsible for the contract closeout at all six agencies were not able to close the contracts or grants within the prescribed timeframes. The DoD and DoS audits determined that individual contract files had remained open from 1 month to more than 14 years beyond the FAR timeframes. Other organizations reported lesser delinquencies.

Overall, the contract closeout process received low priority relative to the total work load of the contracting activities reviewed. This occurred because agencies placed priority on contract solicitations and awards in those offices responsible for the procurement and contract administration functions. Also, officials responsible for the contract closeout process were not always adequately trained in the closeout functions or were not held accountable for the closeout process in their performance plans.

The DoED grants were closed in large numbers but were closed without an assessment of grant fulfillment or current financial status. More than 10,000 discretionary grants were closed in 1987 without the required performance and financial status reports. The DoED audit reviewed the latest backlog of grants awaiting closeout and found that the required reports were missing from many grant files. Performance and financial status reports are required from grant recipients to assure the DoED that the conditions of discretionary grants were fulfilled and that funds were spent as intended.

From 1985 through 1990, the DoED reported to the Office of Management and Budget that the failure to close grants in a timely manner was a high-risk area. The DoED reported that, "When grants remain open for years beyond the performance end dates, DoED runs the risk of losing millions of dollars through inappropriate draws of unexpended grant fund balances." In December 1991, the DoED reported making significant progress in closing grants and stated that grant closeout was no longer a high-risk area.

Contract, grant and finance files, and system information. Missing files and inaccurate or incomplete data also impeded the

contract closeout process. Although the DoD had the most comprehensive system to track the status of its administered contracts, inaccuracies in the data base contributed to delays in closing contracts. Incomplete or missing contract and finance files delayed the resolution of contract and financial problems essential to successful contract closeout. The FEMA and the DoED also reported missing contract and grant files.

The DoC and DoS reports noted that contract tracking and financial reporting systems critical to the contract closeout function were inadequate. The tracking systems generally did not track events beyond contract award. The status of a contract was determined by a review of documentation in the contract file. Commenting on its attempt to obtain a universe of contracts awaiting closeout, the DoS reported that, "Any attempt to determine the number, value, or type of contracts or their outstanding unliquidated obligation balances would have required detailed examination of each file and would have been difficult, if not impossible, because of missing information."

Documentation requirements for grants were also important to the closeout process. When reports were missing from grant files, the DoED audit determined that DoED could not be assured the conditions of the grants were fulfilled or that funds were spent as intended.

Timeliness of fund reviews and deobligation of excess funds.

The FAR requires fund reviews and deobligation of excess funds as part of the contract closeout process. Officials responsible for fund reviews did not routinely perform the reviews. The DoD reported that fund reviews were not conducted because of inadequate guidance and a lack of training for officials responsible for closing contracts. About \$8 million was not identified for deobligation on the DoD contracts reviewed. The DoS reported more than \$1 million in no-year funds that could be deobligated and made available for other requirements. The DoS estimated that unliquidated obligation balances totaled tens of millions of dollars.

The DoED audit identified about \$70 million of unexpended balances on grants that were expired for more than 5 years. When expired grants are allowed to remain open beyond 5 years, a risk of unauthorized draws exists; the ability of the DoED to recover any misspent funds is limited by the Statute of Limitations.

Other findings reported by the Executive agencies. In addition to the conditions discussed above, agencies reported problems in property accountability, in timely recovery of overpayments to contractors, in submission of required contractor documentation, and in delivery of goods and services.

DoD. Government-owned property was retained at contractor locations on completed and closed contracts. Property reports for contracts awarded during the 1960s and 1970s showed about \$286 million in Government-owned property stored under closed or completed contracts. The DoD estimated that storage costs for the property would amount to about \$28.6 million a year.

The DoD also reported that overpayments to contractors on incentive-type contracts were not recovered in a timely manner. Delays in recovering \$1.1 million of overpayments cost the Government an estimated \$197,000 in interest and exposed the Government to unnecessary risks associated with debt collection.

FEMA. Contractors did not provide documentation of property in their possession. The FEMA did not know whether the 22 contractors it reviewed had Government-owned property or whether Government-owned property at those contractor locations was properly safeguarded. Also, contractors did not submit final vouchers at contract completion and did not provide release statements to the Government. Those two elements are essential to the closeout process.

The FEMA contracting officials did not ensure that goods and services were received and accepted. Consequently, the FEMA had no assurance that the goods and services were received and accepted for contracts valued at \$39.9 million.

AID. The value and condition of Government-owned property was unknown. In addition, the GAO reported the AID did not know whether property was properly disposed of at contract completion. The GAO cited the AID for noncompliance with regulations concerning property accountability and made specific reference to inadequate contract closeout.

Public Law 101-510 and its impact on contract closeout. Public Law 101-510, "National Defense Authorization Act for Fiscal Year 1991," was passed on November 5, 1990. The law applies to all Federal agencies and prescribes new rules for determining the availability of appropriation and fund balances. The M accounts, which were used to hold expired funds for future disbursements, were eliminated. Instead, separate expired accounts are to be maintained for up to 5 years. At the end of the fifth fiscal year, all obligated and unobligated balances are canceled, and the expired account is closed. Any additional disbursements required after closure of the account must be charged to a current appropriation. Those changes make timely contract closeout an essential part of contract management. We expect the timeliness of contract closeout to improve as a result of the new rules for funds availability.

DCAA Role in contract closeout. The DCAA audited overhead rates for the DoD, the DoC, and the AID, providing an essential service prior to closing cost-type contracts. However, the backlog of DCAA overhead audits delayed contract closeout in those agencies. The DCAA recognized that, under the new funds availability rules, continued delays in overhead audits could result in the use of current monies to pay for old obligations. Since Public Law 101-510 was passed, the DCAA has adjusted the overhead audit priorities to accomplish overhead audits before contract funds are canceled. As a result, we anticipate a reduction in the backlog of overhead audits.

Conclusion. The audits concluded that contract and grant closeout needs improvement. The first step in correcting the problems is recognizing that contract closeout must have a higher priority. Management efforts must focus on timely contract and grant closeout and reduce the amount of open unliquidated obligation balances on completed contracts and unexpended grant fund balances.

Recommendations and management actions. Recommendations in the various reports addressed the need to establish a higher priority for contract and grant closeout, improve the timeliness of contract closeout, improve contract information tracking systems, improve property accountability, and identify and deobligate excess contract funds in a more timely manner. Overall, management in each Executive agency generally agreed that the contract closeout process needed improvement.

The DoD started a training program on conducting funds reviews for administrative contracting officers. Further, the DoD has taken action to dispose of excess property identified on completed contracts, as appropriate.

The DoC has initiated action to develop guidance on prompt identification and deobligation of unliquidated obligations.

The DoED initiated closure on 5,200 grants identified by the auditors and implemented guidance for a systematic approach to closing grants. The DoED also deobligated funds from expired grant files.

The DoS acknowledged the need for a contract tracking system and will develop a "Contract History Report" to include obligation and payment information by contract.

The FEMA management agreed to develop a plan to close out the backlog of completed contracts and emphasize the need for timely contract closeout to FEMA contracting officials.

The AID made contract closeout a consideration in the review and certification of contracting systems in an effort to simplify the

closeout process. The AID is also developing a new contract information system to track contracts through closeout.

Those are just a few of the recommendations made and management actions taken in response to the audit reports for each Executive agency. Additional recommendations are not required at this time. The recommendations by the Inspectors General and GAO made to each of the Executive agencies and the management actions taken or planned should result in more efficient and timely contract and grant closeout. The recommendations should also improve the effectiveness of contracting operations overall.

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PART III - ADDITIONAL INFORMATION

APPENDIX A - Audit Reports Issued

APPENDIX B - Participating Agencies and Points of Contact
for the Audits

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APPENDIX A - AUDIT REPORTS ISSUED

Department of Defense

Office of the Inspector General, DoD, Report No. 90-043, "Plant Clearance Action on Government-Owned Property in the Possession of Defense Contractors," March 2, 1990.

Office of the Inspector General, DoD, Report No. 90-108, "Audit of the Administration of the Contract Closeout Process at the Defense Contract Management Region, Dallas," September 18, 1990.

Office of the Inspector General, DoD, Report No. 91-064, "Administration of the Contract Closeout Process at the Defense Contract Management District Mid Atlantic," March 20, 1991.

Office of the Inspector General, DoD, Report No. 91-065, "Administration of the Contract Closeout Process at the Defense Contract Management District West," March 20, 1991.

Office of the Inspector General, DoD, Report No. 92-076, "Administration of the Contract Closeout Process Within DoD," April 15, 1992.

Department of State

Office of the Inspector General, Department of State, Report of Audit No. 1-PP-026, "Contract Closeout Process," September 1991.

Department of Education

Office of the Inspector General, Department of Education, Audit Control No. 11-90760, "Expired Grants Allowed To Remain Open For Years," March 1991.

Department of Commerce

Office of the Inspector General, Department of Commerce, Report No. AIS-0015-1-0002, "The Contract Closeout Process Within the Department of Commerce Needs Improvement," March 1991.

Federal Emergency Management Agency

Office of the Inspector General, Federal Emergency Management Agency, Report No. E-6-90, "Review of FEMA's Contract Closeout Process Region IV - Atlanta, GA," June 14, 1990.

APPENDIX A - AUDIT REPORTS ISSUED (cont'd)

Office of the Inspector General, Federal Emergency Management Agency, Report No. E-7-90, "Review of FEMA's Contract Closeout Process Region VI - Denton, TX," June 20, 1990.

Office of the Inspector General, Federal Emergency Management Agency, Report No. H-15-90, "Review of Contract Closeout in the Federal Emergency Management Agency," July 1990.

Office of the Inspector General, Federal Emergency Management Agency, Report No. W-011-90, "Report on Audit of the Contract Closeout Process in FEMA Region VII," August 27, 1990.

Office of the Inspector General, Federal Emergency Management Agency, Report No. W-012-90, "Report on Audit of the Contract Closeout Process in FEMA Region IX," August 27, 1990.

Office of the Inspector General, Federal Emergency Management Agency, Report No. W-013-90, "Report on Audit of the Contract Closeout Process in FEMA Region X," August 27, 1990.

Agency for International Development
General Accounting Office Report

General Accounting Office/National Security and International Affairs Division, Report No. GAO/NSIAD 90-67, "Foreign Economic Assistance, Better Controls Needed Over Property Accountability and Contract Close Outs," January 1990.

**APPENDIX B - PARTICIPATING AGENCIES AND POINTS OF CONTACT
FOR THE AUDITS**

DoD, Mr. Salvatore D. Guli, (703) 692-3025

DoC, Ms. Karen DePerini, (202) 482-0067

DoED, Mr. Charles Brennan, (202) 205-9325

DoS, Mr. Ken Comer, (703) 284-2600

FEMA, Mr. Richard Skinner, (202) 646-3900

AID, Mr. Bruce Crandlemire, (703) 875-4303
[For a copy of the GAO report, contact GAO at
(202) 275-1604]

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